

Message Text

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C O N F I D E N T I A L LONDON 14430

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: NORTH SEA OIL PARTICIPATION TALKS WITH ESSO

1. JIM DEAN AND RICHARD REID OF ESSO EUROPE CALLED ON EC MINISTER SEPTEMBER 13 TO DISCUSS NORTH SEA PARTICIPATION TALKS BETWEEN ESSO/SHELL AND THE UK GOVERNMENT. TWO MEETINGS TOOK PLACE ON SEPT. 3 AND 13 AND A THIRD WILL PROBABLY TAKE PLACE IN TWO WEEKS OR SO. THE UK SIDE HAS BEEN LED BY ENERGY SECRETARY BENN AND BNOC CHAIRMAN LORD KEARTON.

2. AS DEAN DESCRIBED IT, THERE ARE FOUR ISSUES TO BE SORTED OUT. THE FIRST, MOST DIFFICULT, AND MOST IMPORTANT IS WHO GETS THE CRUDE. ESSO/SHELL ARE WILLING TO GIVE BNOC AN OPTION ON 51 PERCENT OF CRUDE PRODUCTION, BUT ONLY IF BNOC AGREES TO TURN BACK AS MUCH CRUDE AS THE TWO COMPANIES NEED, AND ESSO THINKS IT WILL NEED ALMOST ALL OF THEIR PRODUCTION IN VIEW BOTH OF THE HEAVY ESSO INVESTMENT THAT LIES BEHIND THIS CRUDE PRODUCTION, AND ESSO'S POSITION OF BEING NOW A CRUDE DEFICIT COMPANY. IN OTHER WORDS, ESSO/SHELL ARE WILLING TO ACCEPT THE 51 PERCENT CLAUSE ONLY IF IT IS OPERATIONALLY MEANINGLESS.

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3. THE OTHER THREE ISSUES, WHILE DIFFICULT, MAY BE AMENABLE TO UNDERSTANDINGS OR COMPROMISE:

A. ESSO/SHELL ARE TROUBLED ABOUT THE QUESTION OF TITLE, BUT COULD PROBABLY ACCEPT A FORMULA WHICH LEAVES THEIR BENEFICIAL INTERESTS IN THE OIL UNTOUCHED.

B. IN UPSTREAM COOPERATION, ESSO/SHELL ARE WILLING TO HOLD PERIODIC MEETINGS WITH BNOC EMPLOYEES TO INFORM AND EDUCATE BNOC ON THEIR COMMERCIAL OPERATIONS IN FIELDS COVERED BY THE DEAL, THOUGH NOT ON EXPLORATIONS. THEY THINK THIS MAY BE ACCEPTABLE TO KEARTON.

C. ON DOWNSTREAM COOPERATION, ESSO/SHELL HAVE NO PROBLEM IN BRIEFING BNOC ON REFINING PLANS; THEY CONSIDER THAT UKG HAS REASONABLE INTEREST IN SEEKING TO ASSURE BEST USE OF OIL AND THIS WOULD PROVIDE FORUM TO HEAR BNOC VIEWS. HOWEVER ANY BNOC PARTICIPATION IN MARKETING DECISIONS IS UNACCEPTABLE FOR LEGAL

4. WHILE THERE IS A POSSIBILITY OF RESOLVING THREE OF THE FOUR ISSUES, ESSO/SHELL SEE NO POINT IN PROCEEDING MUCH FURTHER UNLESS THE CRUCIAL ISSUE OF CRUDE CAN BE SETTLED. THEY ARE UNWILLING TO GIVE THE BRITISH GOVERNMENT SOMETHING FOR NOTHING, I.E. OPTION TO USE 51 PERCENT OF CRUDE WHICH IS BEING PRODUCED AS A RESULT OF THE COMPANIES' INVESTMENT. THEIR POSITION IS UNYIELDING ON THIS POINT, DEAN SAYS. IF AFTER SOME FURTHER CONTACT IT APPEARS THAT THE BRITISH GOVERNMENT IS EQUALLY UNYIELDING, THE COMPANIES INTEND TO BREAK OFF THE DISCUSSIONS, AND AWAIT THE CONSEQUENCES. DEAN SAID ESSO AND SHELL ARE IN AGREEMENT ON THIS AND ALL POINTS.

5. DEAN SAID THERE HAS BEEN NO MENTION OF SANCTIONS IF COMPANIES DO NOT AGREE, BEYOND EARLIER MENTION BY LEVER AND OTHERS THAT GOVERNMENT WILL HAVE CONSIDER WHAT TO DO IF PARTICIPATION IS NOT VOLUNTARILY AGREED.

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